

As Prepared for Delivery

**Global Trade and the Middle East:  
Reawakening a Vibrant Past**

Robert B. Zoellick  
United States Trade Representative  
Remarks at the World Economic Forum  
Dead Sea, Jordan  
June 23, 2003

Not far from where we meet today, you can stand by vestiges of watch towers from the Iron Age. From the hills upon which these silent sentinels remain as lookouts of old Jordan's past, you can discern the arrival of a new nation's future: in a nearby valley, adjacent to the campus of Jordan University, you can see the offices of Estarta Solutions, where 170 Jordanians are busy developing advanced business software. This dynamic company produces a variety of products, from Arabic word processors for Macintosh computers to banking software. Last year, under the U.S.-Jordan Free Trade Agreement, Estarta earned \$1 million in export sales to the United States, and Microsoft announced that it would be making a major investment in the company.

The president and co-founder of this start-up, Ennis Rimawi, is one of a new generation who are making their mark as innovators and entrepreneurs in the global economy. Rimawi and his colleagues are reviving a proud past—when the Middle East was the vibrant core of global trade—and charting a brighter future: for Jordan, the Middle East, and the world.

Survey the lands of the Middle East and the Mahgreb today: Jordan, our host, Morocco to the west, and Bahrain to the east stand out for what can be accomplished when leaders embrace development sparked by trade, openness, and reform. These three nations have expanded educational opportunities, advanced the contributions of women, cut costly tariffs and quotas, enhanced regulatory transparency, promoted privatization, and welcomed foreign investors.

In February, on the eve of war, President Bush spoke of a new vision for peace and prosperity in the Middle East: “Old patterns of conflict in the Middle East can be broken,” he observed, “if all concerned will let go of the bitterness, hatred, and violence, and get on with the serious work of economic development.”

On May 9, following the defeat of Saddam Hussein, the President gave depth to that vision by announcing a Middle East initiative that marries trade, aid, and a commitment to regional security and peace. He pledged American help.

Our ambition, the President said, is “to bring the Middle East into an expanding circle of opportunity, to provide hope for the people who live in that region.”

The reconstruction and reopening of Iraq presents an opportunity for change—an opening for the people of the Arab world to ask why their region, once a nucleus of trade, has been largely excluded from the gains of this modern era of globalization. Peoples around the world are realizing that decades of closed national borders, centralized economic controls, the heavy hand of government, and nationalized industry have entrenched poverty, not alleviated it.

There is a vast wealth of human capital in the Middle East, waiting to be empowered.

Now, the United States is making a long-term commitment to help those who will strive to reclaim a splendid past and create a new future: one of peace, hope, and opportunity.

The United States aims to brighten the Middle East with as many success stories as stars in the desert sky. To do so, we are charting a new constellation: shining lights of trade and investment that offer a clear course for countries in the region wishing to embark on a journey of economic openness and reform.

Our trade agenda is a fundamental part of the President's broader Middle East initiative. We will combine vigorous efforts to forge peace between Israelis and Palestinians, targeted aid, business and educational exchanges, security cooperation, humanitarian and health assistance, and other programs—along with private trade and investment—to assist countries in creating stable, prosperous societies.

This strategy recognizes the differing levels of development across the region, the historical and political sensitivities faced by governments, and the reality that reform processes must be driven from within. Our goal is to assist nations that are ready to embrace economic liberty and the rule of law, integrate into the global trading system, and bring their economies into the modern era.

Our hope, as President Bush said in South Carolina, is that free markets and trade will help defeat poverty and promote the habits of liberty in all peoples.

A Middle East Free Trade Area will not be created in a month, a year, or even five years. But America is committed for the long haul, through a step-by-step strategy for progress that will help nations build free, dynamic economies and rising standards of living for all.

### **The Spirit of the Levant: Trade In the Middle East**

Open markets and trade have a long lineage in this part of the world. The Holy Quran urges the faithful to “Let there be trading by mutual consent.” For centuries, the Middle East was the world's preeminent bazaar, a region renowned for commercial prowess.

Throughout the Middle Ages, the eastern and western Mediterranean were linked by a network of trade. According to a 1453 report by a Catalanian merchant from Eastern Spain, this region was “the head and principal of all commerce,” the heart and soul of the world’s economy.

The region at the center of this trade was named the Levant by Europeans, from the Latin verb meaning “to rise,” referring to the point where the sun rises in the east. The “Levant trade” described the rising flow of goods and ideas between Europe and Lebanon, Egypt, Syria, Turkey, Jordan, and Persia.

Long before oil was a valued commodity, the Levant trade was the source of much of the Middle East’s wealth. In the middle of the 18<sup>th</sup> Century, before my country was born, the British scholar Edward Pococke, living in Syria, noted that the commercial centers of the region had grown “great, populous, and rich, from the trade it driveth....”

European merchants imported spices, dyes, sugar, pearls, and precious stones from the Middle East. Silk from Persia and the shores of the Caspian was carried to the kingdoms and principalities of Europe via a “silk road” that stretched west to the Atlantic Ocean and east to China. The caravan-serais sprinkled across the deserts not far from here—and the majestic ruins of Petra—stand in testament to the vitality and practicality of this trade.

Medieval Europe depended on this region for many materials. Alum, used in dying fabrics, came from Turkey, Syria, and Egypt. Potash, used for making soap and glass, was drawn from Syria. The Levantine trade was valuable and varied: wheat; furs; pitch; rugs; wax; caviar; and many other goods flowed east and west in a continual stream of commerce.

A sophisticated system of banking and finance underpinned this trade. A letter of credit issued in Baghdad could be honored from Samarkand to Sicily.

The Middle East of today is rich in human capital and, once freed from the weight of bureaucracy, is quick to revive its traditions of free and open commerce. Yet ruinous military conflicts, misguided economic policies, and brutal suppression of liberties have cut off the Old Levant from the New Global Economy. Working together, the challenge is to draw on what is successful and build on it, to extend opportunity to all nations striving for progress and peace.

The new merchants of the Middle East have an extended journey to travel. The Middle East’s share of international trade and foreign direct investment is among the lowest in the world.

According to the United Nations, the Middle East attracted just 0.7 percent of global foreign direct investment throughout the 1990s. Exports from the region—over 70 percent of which are accounted for by oil and oil-related products—grew at 1.5 percent per year over the same period, far below a global average growth rate of 6 percent. On a per capita basis, exports are significantly lower today than 20 years ago.

U.S. trade patterns reflect the Middle East's detachment from full participation in the global economy. The United States imports almost twice as much from Hong Kong as it draws in non-oil goods and farm products from the 22 members of the Arab League and Afghanistan combined.

This economic autarky has consigned tens of millions to unemployment and poverty. According to the World Bank, about 25 percent of people in the region live on less than \$2 per day. The UN reports that Arab countries have the world's lowest percentage of people who use the Internet or have access to a computer.

Yet the free-trade "Spirit of the Levant" remains alive in Arab émigrés in cities around the world. In the United States, 3 million Arab immigrants have evidenced an impressive talent for commerce and education. Arab-Americans have achieved levels of income 22 percent above the U.S. average; 36 percent have completed college, compared to 23 percent of Americans overall. A rebirth of commerce and intellectual discovery awaits only an awakening of economic liberty throughout their homelands.

Little-noticed demographic trends point to the potential for progress in Arab lands when trade barriers come down and reform—from property rights to judicial systems—takes hold. Nicholas Eberstadt and Lisa Howie of the American Enterprise Institute provided me data showing that important growth indicators such as life expectancy, birth rates, literacy, and educational attainment have all improved dramatically over the past generation. Although progress has been uneven across countries, between 1970 and 2000 overall illiteracy rates for adult Arabs fell by over 30 percentage points—from 71 percent to 39 percent. Average years of schooling for people 15 and older more than tripled over the same period. Mortality rates are low in many countries, with life expectancy exceeding 70 in Algeria, Jordan, Iran, Kuwait, Lebanon, Libya, Oman, Saudi Arabia, Tunisia, the UAE, and the Palestinian territories.

The Middle East also faces serious challenges. Absent economic liberalization, population growth threatens to turn the social crisis of chronic unemployment into chaos and despair. Reform is urgent; the cost of clinging to failed socialist and bureaucratic models—from the mid-20<sup>th</sup> Century or even the Ottomans—is unsustainable.

Scholars from the 22 Arab League countries authored a report last year, sponsored by the UN, which called for fresh thinking, but also an appreciation of the qualities that once gave this region vitality, energy, and hope. The report stated that Middle East nations cannot continue to rely on oil wealth. It explained honestly that the few have deprived the many of basic political freedoms.

It is encouraging that new leaders and businesspeople are acting on these truths. This special meeting of the World Economic Forum in Jordan is itself a sign of change. As King Abdullah said, this gathering can help “show the world that the Middle East is ready for reform, development and growth.”

## **Models for Reform: Jordan, Morocco, and Bahrain**

### **Jordan**

Jordan is leading by example: It has invested in health and education, strengthened property rights, freed the private sector from government strictures, trimmed regulations, and pursued sound monetary policies. Jordan also joined hands with the United States through a comprehensive free trade agreement, which has helped speed economic progress.

Jordan is now outpacing its neighbors—and much of the world—by leveraging trade to create growth and opportunity. The economy has expanded by more than 4 percent annually over the past several years, sparked by both internal reforms and greater exports to the United States. Since signing the U.S.-Jordan Free Trade Agreement in 2000, Jordan’s sales to U.S. customers have expanded nearly 13-fold, from \$31 million to \$389 million. Last year alone, Jordan’s exports to the United States grew by 72 percent. That increase is especially impressive considering that during the same year exports from the Middle East to the United States dropped by 9 percent.

The FTA has helped Jordan diversify its industry and has created tens of thousands of new jobs. Jordanian exporters of stone and marble, jewelry, machinery, food products, information technology, and cosmetics have all found new U.S. buyers for their goods.

The experience of Petra Engineering Industries, based right here in Amman, illustrates how free trade empowers companies to seize new opportunities. A designer and manufacturer of air-conditioning, refrigeration and ventilation equipment, Petra has employed the FTA to enter and compete in the U.S. market.

This year Petra sent a team headed by its U.S. sales manager, Rami Soleiman, to a business expo in Chicago. The company’s participation was supported by the Jordanian-U.S. Business Partnership, a government-business venture funded by the U.S. Agency for International Development. Petra worked closely with U.S. distributors, too. As a result, Petra expects to double its U.S. sales this year. The \$3 million of sales may sound modest, but multiplied by hundreds of companies and thousands of transactions, such stories have fueled Jordan’s impressive growth.

### **Morocco**

Innovators in Morocco were alert to the new activity in Jordan. The United States is now negotiating an FTA with Morocco, building on a 1995 Trade and Investment Framework Agreement. We hope to conclude those negotiations by the end of this year.

Morocco has distinguished itself as an engine of pro-market, democratic reform in the Mahgreb. It has liberalized its telecommunications sector and strengthened intellectual property protections. Morocco is moving to allow 100 percent foreign ownership in key service sectors such as insurance. It has launched an initiative to streamline investment procedures and eliminate barriers to foreign and domestic investment.

U.S. trade and investment is already opening opportunities in Morocco. A U.S.-Morocco FTA will help Moroccans to transform their economy by linking the practical benefits of trade and investment to the country's domestic reform agenda.

Consider the case of CMS Energy of Michigan. A few years back, CMS helped build, and now runs, a \$1.3 billion state-of-the-art electric power plant in Jorf Lasfar—a city about 80 miles southwest of Casablanca. This profitable plant supplies about 65 percent of Morocco's average electricity demand. The plant also employs more than 300 Moroccans who gain from training and further education. And CMS has introduced clean generation technology that has greatly improved Morocco's environment by replacing older, inefficient facilities.

CMS has adopted a zero-tolerance policy for surface and ground water contamination. It has instituted a recycling program for ash, and much of its waste water is now used by Moroccan cement companies. CMS installed a fish barrier at its sea water intake to protect migratory fish.

CMS is now constructing an industrial park that is expected to generate more than \$21 billion in economic activity in Morocco and create more than 230,000 jobs within a decade. The U.S.-Morocco FTA will lay a foundation for more such projects in the future, promoting growth and helping to solidify economic and political reforms in Morocco.

## **Bahrain**

A few days ago I visited Bahrain to talk with people about the reforms underway. As we announced with His Majesty Crown Prince Al-Khalifa in Washington last month, the United States and Bahrain will seek to establish an Atlantic partnership for Bahrain's modern economy by opening the ports and airports of America to its free trade. Our next step is to undertake substantive consultations with the U.S. Congress.

Bahrain is the Persian Gulf's first post-oil economy. As its oil production has declined, growth in manufacturing and services have kept real GDP rising at between 4 and 5 percent for the past three years. Bahrain has cut tariffs, improved property rights, strengthened copyright and patent laws, and created an open environment for e-commerce. It is an emerging financial center in the Gulf and is becoming a regional hub for services and knowledge-based industries—aided by links with U.S. universities and service providers.

Trade with the United States has provided capital and know-how to help Bahrain to grow. Last year, Bechtel won a contract from the Aluminum Bahrain Company, ALBA, for the engineering design and construction management for the company's fifth aluminum production line—a project worth about \$1.7 billion. And Alcoa is in the final stages of negotiating an equity stake in ALBA's projected sixth aluminum line, providing investment capital for a project worth an estimated \$1.5 billion.

This is just the start.

### **A Roadmap to MEFTA**

President Bush envisages the creation of a U.S. - Middle East Free Trade Area—a region-wide commitment to open trade with the United States and, equally important, to free trade among the nations of the Middle East.

The U.S.-Middle East trade initiative complements and extends America's already significant economic engagement with this region. Yet our efforts have been limited by old hatreds, political instability, corruption, bureaucracies and the privileged few who resist the competition of economic reforms, a search for enemies to blame instead of partners to build with, and price uncertainties for oil-dependent economies. To move forward, we need a unified regional strategy and a commitment to work together.

Of course there are different levels of development, preparation, interest, and capability on the part of countries in the Middle East and Mahgreb to make and implement serious economic reforms. Yet models of success can spur prospects for change in all. One-by-one, then with groups, working with willing partners to build coalitions for opportunity, and navigating a pathway for progress and reform, we will work toward full economic partnership.

The countries of these lands were the colonies or protectorates of others for too long. Their future should be open to competitive trading with the United States, the European Union, Asia, Africa, and the whole world. As I have discussed with my colleague and friend European Trade Commissioner Pascal Lamy, our combined aim should be to expand opportunities for your countries, not narrow them.

First, the United States will actively support WTO membership for those peaceful countries in the region that seek it. We are offering to work with Saudi Arabia, Lebanon, Algeria, and Yemen in Geneva and in the capitals of key WTO members. We will also assist countries that are already WTO members to gain full advantage of open global markets and help them implement commitments. We want to assist the full integration of the nations of the Middle East within the global trading system.

Second, the United States will employ the Generalized System of Preferences program that Congress restored in the Trade Act of 2002 to increase U.S. trade ties with the Middle East. GSP provides duty-free entry to the U.S. market for some 3500 products from 140 developing economies, including six countries and the West Bank in the Middle East. Last year, Americans bought over \$278 million worth of products from the region under this program—including Egyptian furniture, Omani jewelry, and Lebanese olive oil. We will provide new resources to work with Middle Eastern businesses on GSP opportunities, applications for more products, and marketing to U.S. investors as GSP countries.

Third, the United States will offer to negotiate Trade and Investment Framework Agreements, or TIFAs—which establish a work program to expand trade and resolve outstanding disputes—and we will offer to deepen those agreements already in place with Bahrain, Morocco, Egypt, Tunisia, and Algeria. TIFAs are an important rung on the ladder to an FTA. They can help develop the experience, institutions, and rules that advance integration into the global economy. TIFAs encourage private sector participation through business councils that drive trade agendas and help us address the specific concerns of business.

Jordan offers a good example of how a TIFA can yield direct benefits while creating momentum for liberalization that can lead to an FTA. Improvements in intellectual property protection made under Jordan's TIFA stimulated the pharmaceutical, chemical, and high-tech sectors, attracting foreign investment and creating new jobs. Improved regulatory transparency under the TIFA enhanced the business and investment climate. These gains, in turn, boosted public and business support for the U.S.-Jordan FTA in both countries.

In Egypt, the TIFA process has supported passage and implementation of a new IPR law and assisted Egypt in acceding to WTO telecommunications agreements. We hope it will encourage the government to make Egypt a more hospitable location for investors, open its markets, overhaul a costly and counterproductive customs system, establish a reliable economic rule of law, and keep its commitments.

Fourth, the United States will offer to negotiate Bilateral Investment Treaties, or BITs, which establish common rules for investment in each country. A BIT with the United States can help attract capital and new businesses. By agreeing to treat foreign investors fairly and offer legal protection equal to that available for domestic investors, a country signals that it offers a safe place to do business. By incorporating international business rules and norms in domestic law, these treaties also lay the groundwork for comprehensive FTAs.

Fifth, the United States will negotiate comprehensive free trade agreements—which remove all barriers to trade across all sectors—with the aim of expanding the bilateral FTAs into “sub-regional” FTAs by mooring other interested and qualified countries in the safe harbors of existing free trade agreements. The initial agreements might serve as

beacons for other countries in the region—brightening the way for an illumination of high quality FTAs, spanning the region from the Atlantic Ocean to the Persian Gulf.

At the head of the U.S. bilateral FTA agenda will be the completion of our agreement with Morocco. The next step will be to begin negotiations on an FTA with Bahrain. We hope to work with others in the Arab world. Many in Congress have encouraged us and we will be consulting closely with key members and committees to gain their advice as we proceed.

Over the course of the decade, North African countries might be connected to the Morocco FTA as they achieve a critical mass of reforms. Gulf States could join the Bahrain FTA when they are interested and prepared.

By working with Congress to bring new signatories into existing FTAs, we can help promote trade *among* the nations of the Middle East—a region that suffers the lowest internal trade rates in the world. For example, “cumulation clauses” in bilateral FTAs—which allow our FTA partners to produce and export in concert with their neighbors—would help spur intra-regional trade. Development of region-wide customs rules would further help build regional, and global, trade linkages.

Sixth, the U.S. Middle East trade strategy pictures the eventual melding of these sub-regional FTAs into an historic regional Middle East Free Trade Area. A mutual commitment to eliminate tariffs and other barriers to trade among the countries of the Middle East would provide an engine for economic growth, increase momentum for internal economic reform, provide a stronger voice for the region in the WTO, and leverage the value of future FTA negotiations with other trading partners in Asia, Europe, and Latin America.

The final element of our trade strategy is the provision of financial and technical aid to help countries develop the capacity to take part in negotiations, implement trade agreements, and build the legal and entrepreneurial infrastructure to partake in the benefits of open markets. The Middle East Partnership Initiative will help target more than \$1 billion of annual funding from various U.S. Government agencies and encourage partnerships with private organizations and businesses that support development. That initiative is also aimed at increasing educational opportunities, strengthening civil society and the rule of law, and supporting small businesses.

I visited one such micro-loan project last year in Morocco. Al-Amana is a micro-loan project funded in part by the United States. I met borrowers like Fatima El Borj de rabat, a 49 year-old Moroccan mother of seven, who runs a small business selling natural gas for cooking and heat out of her home. An Al-Amana loan of about \$200 enabled Mrs. El Borj de rabat to serve more customers by doubling her stock of gas canisters and expanding into other products. Without the loan, she reported, her small enterprise would likely have gone under.

Since its launch in 1997, Al-Amana has already made some 250,000 small loans, with an average amount of just \$240 and a default rate of just one quarter of one percent. These loans are important for the jobs they create, the stake they give people in a growing economy, and the empowerment of women—who receive about 54 percent of Al-Amana’s loans.

## **Conclusion**

President Bush said that “the desire for freedom is not the property of one culture, it is the universal hope of human beings.”

Our vision is to foster the revival of a prosperous region once again united by culture, commerce, and goodwill among nations.

We know that there is no quick fix to the problems of poverty and underdevelopment. Building thriving economies and societies in the Middle East will take time, hard work, an entrepreneurial spirit, and a willingness to embrace partnerships with people across the region and around the globe.

To succeed, the composition of this vision will need to be painted with local colors. Success requires local leaders of global vision.

The source of the venture might be an Arabic proverb: “Dwell not upon thy weariness, thy strength shall be according to the measure of thy desire.”

The desire for peace, freedom, hope, and better lives is as strong in the Middle East as anywhere in the world.

Of course, many in the vested order will disparage harkening to a vibrant history, welcoming new ways, new possibilities.

Yet within my professional lifetime, I have had the great fortune of seeing the Soviet empire collapse, working to negotiate the unification of a Germany that experts believed was divided for all time, and encouraging new democracies and market economies in long-lost lands of Central and Eastern Europe to join a Europe whole and free.

I have seen what can be.

Working together, the peoples of this storied region can write a new history informed by a proud past: If leaders and peoples will work for what can be, they can tear down the walls of prejudice, poverty, and protectionism that have isolated the Middle East for too long.